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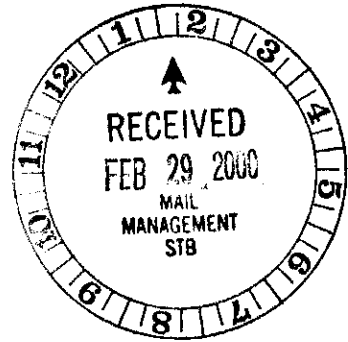


Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902

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Office of the Secretary

FEB 29 2000

Part of
Public Record



Edward S. Christenbury
General Counsel

February 28, 2000

VIA OVERNIGHT MESSENGER

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
Case Control Unit
Attention: STB Ex Parte No. 582
1925 K Street, NW
Washington, DC 20423-0001

Re: STB Ex Parte No. 582 - Public Views on Major Rail Consolidations

Dear Secretary Williams:

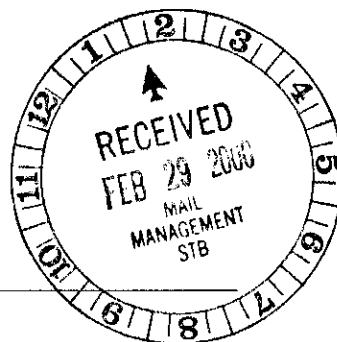
Enclosed for filing in the above-captioned docket are an original and ten copies of the Tennessee Valley Authority's comments with respect to this matter. Also enclosed is a 3.5-inch disk containing the text of this filing in WordPerfect 7.0 format. Should you have any questions, please do not hesitate to contact the undersigned.

Respectfully submitted,


Edward S. Christenbury

Enclosures

BEFORE THE
SURFACE TRANSPORTATION BOARD
DEPARTMENT OF TRANSPORTATION



STB Ex Parte No. 582

PUBLIC VIEWS ON MAJOR RAIL CONSOLIDATIONS

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COMMENTS OF:

TENNESSEE VALLEY AUTHORITY

Edward S. Christenbury
General Counsel

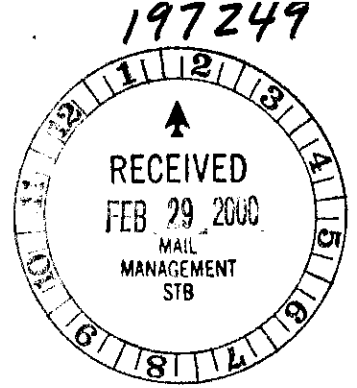
Clay S. Davis, Jr.
Senior Attorney

Tennessee Valley Authority
400 West Summit Hill Drive
Knoxville, Tennessee 37902-1499
Telephone No. (865) 632-7774
Facsimile No. (865) 632-2422

Attorneys for Tennessee Valley Authority

Dated: February 28, 2000

BEFORE THE
SURFACE TRANSPORTATION BOARD



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**COMMENTS OF THE
TENNESSEE VALLEY AUTHORITY**

Pursuant to the decision issued by the Surface Transportation Board on January 24, 2000, each person intending to submit written comments must do so by February 29, 2000. The Tennessee Valley Authority ("TVA") provides the following comments in this proceeding.

COMMENTING PARTY'S POSITION

As more particularly set forth in the attached Verified Statement of Walter L. Elliott, Jr., it is the position of TVA, as a Federal agency charged with providing electric power to and promoting the economic development of the Tennessee Valley region, that additional consolidation of the railroad industry would reduce competition and result in the need for new rules and regulations to protect shippers.

SERVICE

Service upon TVA in this proceeding may be made upon TVA's representative:

Clay S. Davis, Jr.
Senior Attorney
Tennessee Valley Authority
400 West Summit Hill Drive
Knoxville, Tennessee 37902-1499
Telephone: (865) 632-7774

Respectfully submitted,

Edward S. Christenbury
General Counsel

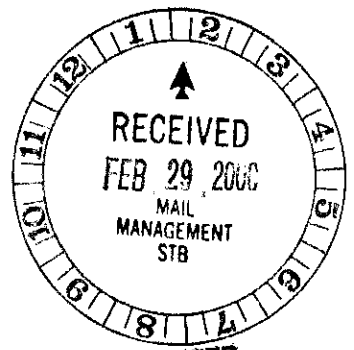
A handwritten signature in cursive script, reading "Clay S. Davis, Jr.", is written over a horizontal line.

Clay S. Davis, Jr.
Senior Attorney

Attorneys for Tennessee Valley Authority

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 582



ENTERED
Office of the Secretary

FEB 29 2000

**COMMENTS OF THE TENNESSEE VALLEY AUTHORITY
AND VERIFIED STATEMENT OF**

Part of
Public Record

Walter L. Elliott, Jr.

My name is Walter L. Elliott, Jr. I am the Vice President of the Tennessee Valley Authority (TVA) Fossil Power Group's Fuel Supply and Engineering Services. I am responsible for fuel supply planning, fuel acquisition, contract administration, transportation services, engineering, and environmental affairs for TVA's Fossil Power Group and for corporate management of fuel operations. I joined TVA in 1973 after graduation and have held various engineering and management positions. I hold a B.S. degree in Mechanical Engineering and a M.S. degree in Mechanical Engineering from Tennessee Technological University.

Background

TVA was created through the Tennessee Valley Authority Act of 1933 as a part of Franklin D. Roosevelt's "New Deal" legislation. According to the Act, TVA is responsible "... for the advancement of the national defense and the physical, social and economic development of the area in which it conducts its operations." One of the ways TVA fulfills its mission of economic development is through the generation and distribution of electricity. Additionally, TVA continues to promote regional economic development through a variety of methods, including the support of commercial navigation, capital investment loans, industrial development services, small business development services, and community development services. By far, TVA's most powerful economic development tool is its massive electric power system, which is the largest public electric power system in the nation. Also important, however, is the TVA system of locks and dams,¹ which is estimated to have saved shippers over \$430 million in 1997 alone.

TVA is the nation's largest producer of electricity, with 28,498 megawatts of generating capacity. Its power generation facilities include 11 fossil plants, 29 hydroelectric dams, 3 nuclear plants, 4 combustion-turbine plants, a pumped-storage facility, and 17,000 miles of transmission lines. The TVA service area includes parts of seven states, covers over 80,000 square miles, and supplies the energy needs of 8 million people through 159 distributors.

Position on Future Rail Mergers

TVA is a rail shipper of over 25 million tons of coal annually. As such, we have a keen interest in developments in the rail industry and the effect of those developments on competition and service. Additionally, TVA is interested in any developments that impact the economic development of the Tennessee Valley. TVA has had active interest

¹ TVA owns 54 dams, 10 of which have navigation locks, making navigation by barge possible for 652 miles on the Tennessee River from Knoxville, Tennessee, to Paducah, Kentucky.

in the recent mergers of the Union Pacific (UP) and Southern Pacific railroads, and the Burlington Northern and Santa Fe railroads. These mergers, in spite of some competitive issues and service problems, have had in general a positive effect on TVA's ability to deliver coal to its plants economically and efficiently.

We have not fared as well in the split of Conrail between the Norfolk Southern (NS) and CSX Transportation (CSXT). The level of service for both NS-served plants and CSXT-served plants has suffered. More importantly, both carriers are pushing for rate increases at TVA plants that are captive to them. We see this rate pressure as being directly related to the Conrail breakup. One railroad marketing representative, in justifying the proposed rate increase, went so far as to say, "Your rate increase is not nearly as much as we are getting from some other utilities." This, as you can imagine, is small satisfaction.

We are, of course, now watching the development of the merger application of the Burlington Northern Santa Fe (BNSF) and the Canadian National (CNIC). If TVA were to look at this merger on a stand-alone basis, TVA might possibly obtain some marginal benefits from the merger, based on existing issues we have with those railroads. The world is, however, more complex than that. It is my belief that a merger of the BNSF with the CNIC will certainly be the linchpin of additional mergers that could result in two large intercontinental railroads. That development would not be in the best interest of TVA because of the resulting decrease in competition.

The STB hearing in this proceeding will allow many rail transportation experts to explain all the reasons that the creation of two such carriers will result in restricted competition and excessive market power. My purpose is to add TVA's perspective as a shipper of large volumes of coal from west to east. Given the present railroad landscape, we have the ability to obtain direct competition between the western railroads for interchange with the NS or CSXT, or for delivery to any of several rail-to-barge terminals. We have seen high levels of competition for these moves. In the west we have

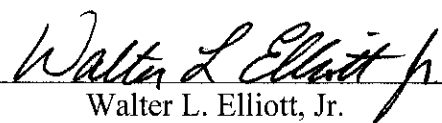
direct competition between the two rail carriers, and in the east we have competition between rail and barge for interchange and delivery to the plant. If the field is reduced to two transcontinental railroads, much of that competition will be lost. Both railroads will structure their rates to attempt to force TVA to source coal and route its deliveries in the manner that is most beneficial to the railroad with little regard for what is best for TVA. We have seen this type of market power used by the eastern carriers.

The public statements from UP, CSXT, and NS confirm that they in fact do not want to merge, but will be compelled to do so if the CNIC/BNSF merger is approved. Certainly the health of the railroads has improved greatly from the consolidation and efficiency improvements in the post-Staggers era.

However, additional consolidation in the future is not needed, nor is it healthy. Two large railroads controlling virtually all the rail movements would result in pricing and service so close to a “monopoly” that it would be difficult to see the difference. Next would come the need for new rules and regulations to protect shippers’ rights, and we would be back to the beginning—before the Staggers Act.

Summary

In summary, I believe that the current playing field can be made reasonably level and fair. Any additional consolidation would be a step in the wrong direction. Any large merger at this point would probably precipitate additional merger applications resulting in a system of two transcontinental railroads dominating the rail industry of this country. The STB should grant the railroads’ own troubled plea—“Stop us before we merge again!”


Walter L. Elliott, Jr.

VERIFICATION

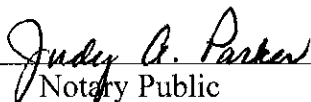
STATE OF TENNESSEE)
) ss.
COUNTY OF HAMILTON)

Walter L. Elliott, Jr., being duly sworn, deposes and says that he is the Vice President of Fuel Supply and Engineering Services, at the Tennessee Valley Authority, and has read the foregoing statement, knows the contents thereof, and that the same is true and correct.



Walter L. Elliott, Jr.

Subscribed and sworn to before me by Walter L. Elliott, Jr., this 28th day of February, 2000.



Notary Public

My commission expires April 23, 2000

CERTIFICATE OF SERVICE

I, Clay S. Davis, Jr., certify that, on this 28th day of February, 2000, I caused a copy of the foregoing document to be served by express mail upon the following party of record:

Office of the Secretary
Case Control Unit
Attention: STB Ex Parte No. 582
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423-0001


Clay S. Davis, Jr.